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2009-05-01

# UK Defence Acquisition Process for NEC: Transaction Governance within an Integrated Project Team

Ermias Kebede

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## **Naval Postgraduate School 6<sup>th</sup> Annual Acquisition Research Symposium – Defence Acquisition in Transition**

UK Defence Acquisition Process for NEC:  
Transaction Governance within an Integrated  
Project Team

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   **Prof. G. Winch**

With thanks to EPSRC: Award number EP/D505461/1

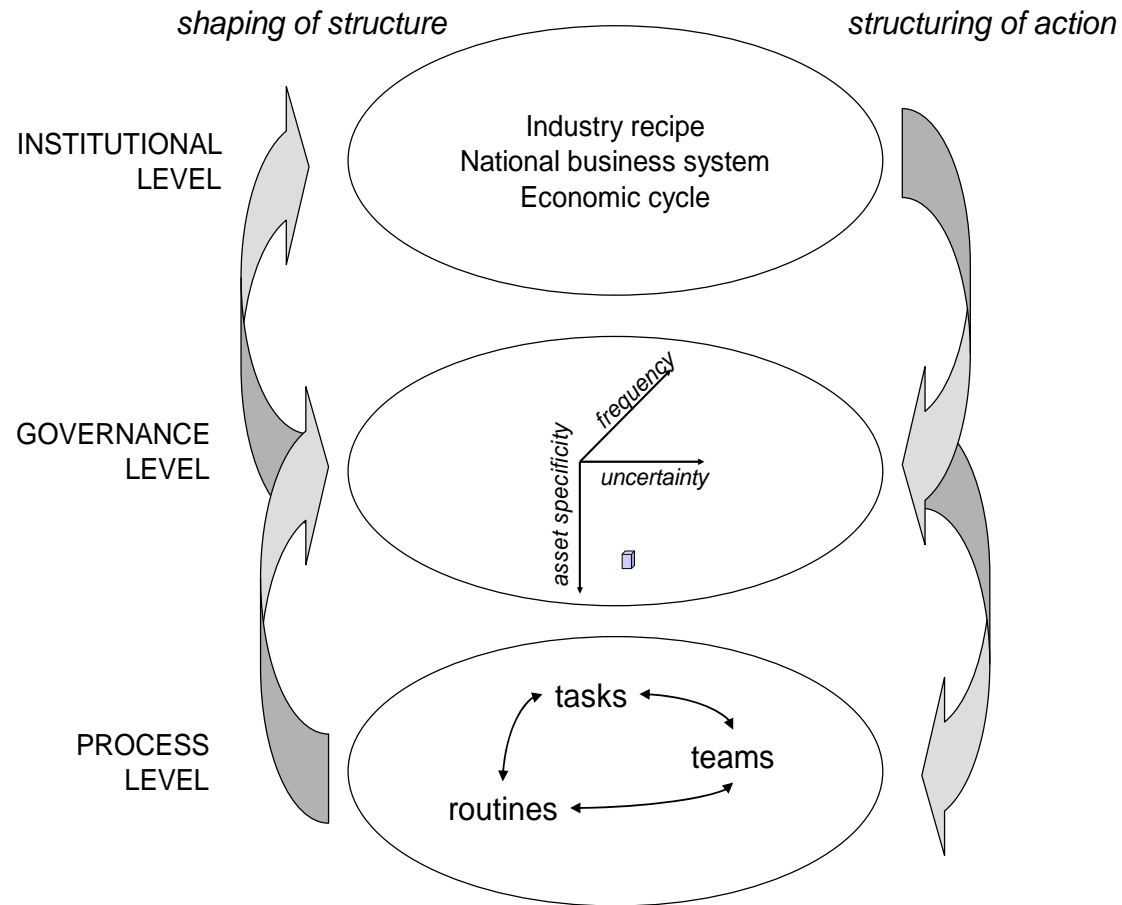
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## The Case Study

- First of a multiple case-based investigation into IPT Transaction Governance
- 19 open-ended interviews with key members of an Advance Military Vehicle IPT
- Demonstration Phase of CADMID
- Focus on the MoD-Prime Contractor bilateral exchange relationship

## The Tectonic Conceptual Model



## A Recent History of Defence Acquisition

### Defence Acquisition From the 80's onwards

A gradual change from the 'cosy relationship' between MoD-Industry to a competitive, yet adversarial, bilateral exchange relationship.

#### Nationalised Defence Sector (Pre-80s)

British Aerospace, British Shipbuilders,  
Royal Ordnance Factories and Rolls Royce

#### Era of Privatisation

BAe (1981-5); RoF (1987); Rolls-Royce; (1988) BS (1989)

#### Levene Reforms (1984)

'Competition and Collaboration'

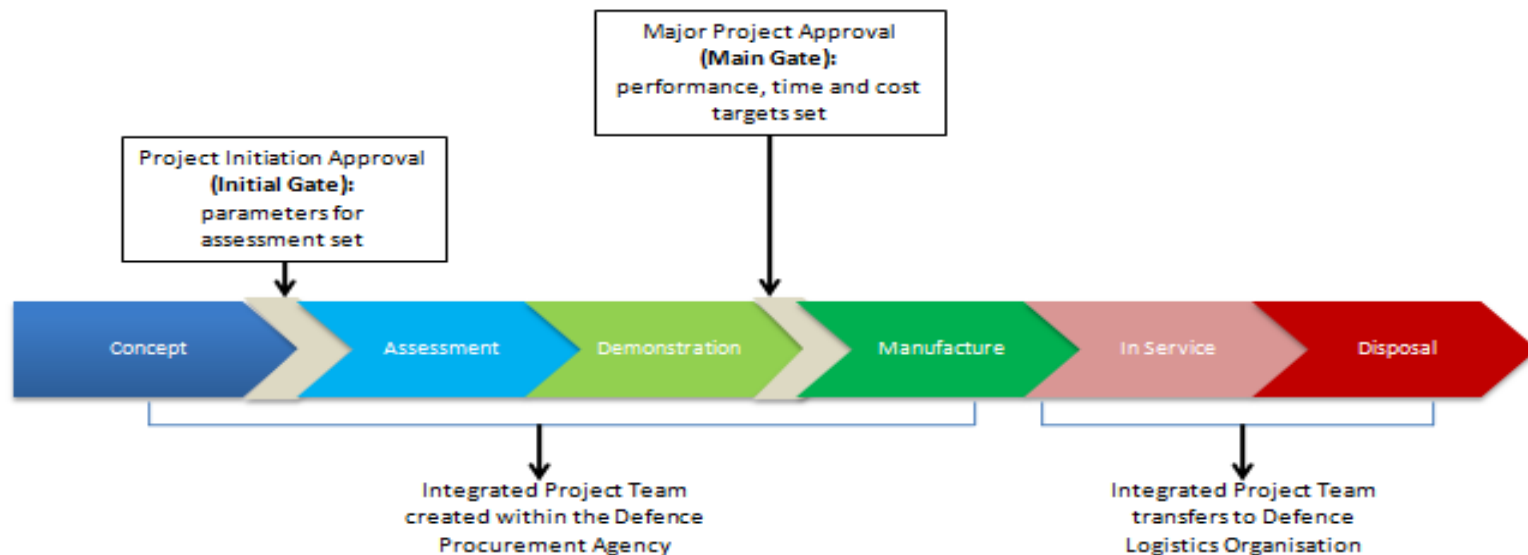
#### Liberalisation

Divestments, Mergers & Acquisitions, and Joint Ventures

#### Consolidation

Industry Champions, Prime Contracting, Monopoly Vs Monopsony

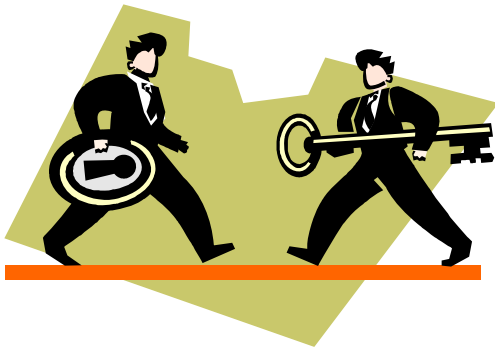
## Defence Capability Acquisition



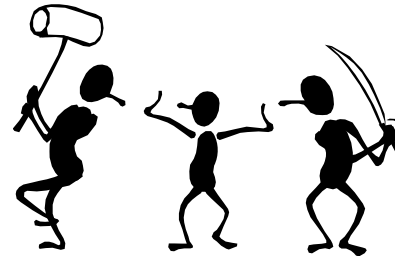
- Transition from Platforms to Capabilities
- Through-Life Capability Management
- Network-Enabled Capability
- Defence Equipment and Support

## Transaction Governance in Defence Acquisition

Market Governance



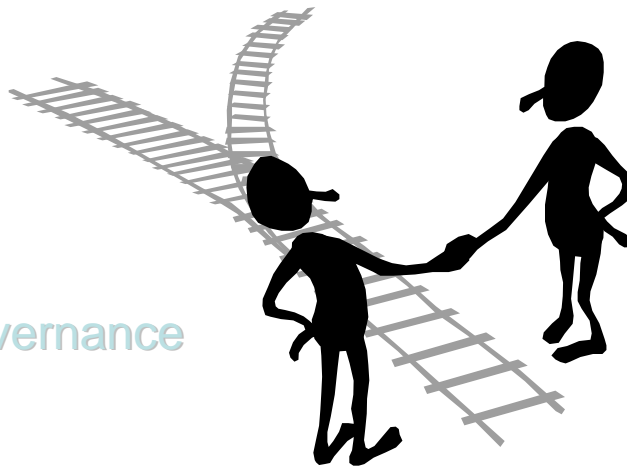
Neo-classical  
Contracting



Trilateral Governance

Classical Contracting

Bilateral Governance



Relational Contracting

UK Defence Acquisition



## Relational Contracting for Defence Acquisition

- Consolidation in the defence industry created a monopolistic supplier, in the case study
  - Feasibility stage started with competitive tendering between 5 consortia in 1990s
  - Successful bidder merges with pre-contract competitor in 2004, resulting in pre-contract asset specificities
  - Asset specificity creates a risk of opportunism (Williamson, 1979); thus, relational contracting remedies the hazards created by lock-in
- IPTs as a mechanism for relational contracting
  - Low transaction frequency negates the need for vertical integration by buyer (Unified governance vs. Bilateral governance)
  - Uncertainty/complexity in defence acquisition create the need for collaboration
  - IPT is the governance mechanism for a close partnership, enhancing communication, conflict resolution and requirement definition: e.g., Shared Data Environment

## IPTs: Tasks, Routines and Teams

- IPTs are responsible for the delivery of defence capability to the end-use customer
  - Up to 120 personnel (civilians, civil servants and military personnel)
  - From key specialists in MoD (finance, requirement definition, logistics, etc.) and from prime contractors' business units
  - Engender collaboration and represent the relational contracting approach
  - [The IPT in the case study](#)
- Frictions in the IPT case
  - Competitive tendering process
  - Delivering technical requirements
  - Sharing information
- Public and Private teams
  - Civil Servant rotation
  - Cohesion and understanding
  - Conflicting goals and routines

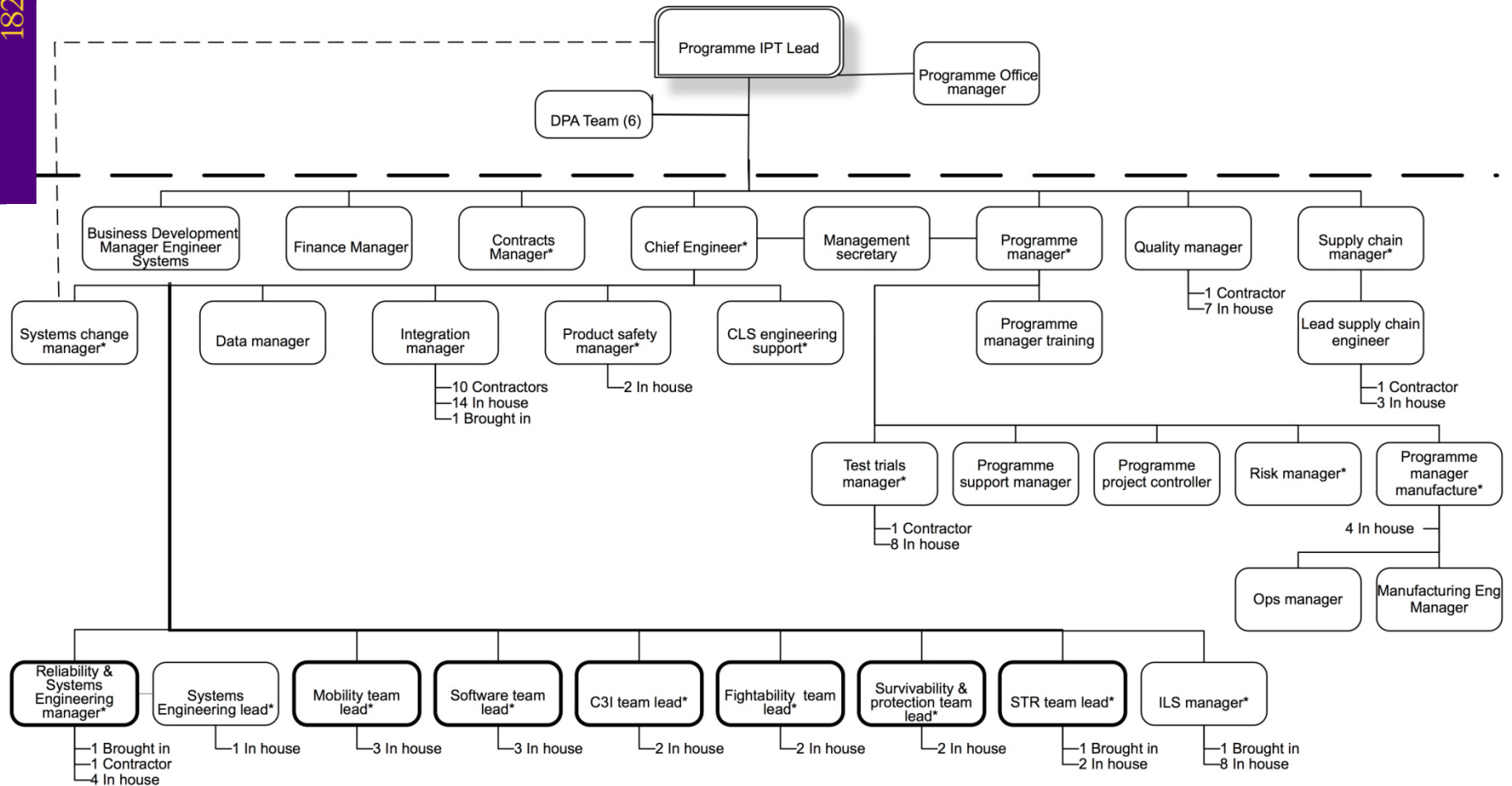
## The Breakdown of the Acquisition Structure

- Structuration problems
  - Change in responsibilities and accountability within the IPT structure
  - Constraints of budget and resources creates an overload of work for the team
- Process problems
  - Organisation 'best practice' routines culturally conflict
  - Rigidities in routines inhibit innovative systems thinking
  - Delays due to incomplete processes
  - Civil servant rotation creates team instability
- Domino effect
  - The MoD wants competitive tendering, but the industry is consolidating
  - Competitive tendering process creates unrealistic goals and milestones for the IPT
  - Lack of resources, time and money can create conflicts, delays and increased costs
  - Collaboration becomes difficult due to a weak (or problematic) mechanism—i.e., the IPT
- Need to rethink the acquisition structure with new policies, stronger mechanisms and an effective IPT process

## Conclusion

- The Tectonic Model provides an effective way of analysing a highly complex transaction using a case study methodology
- It seeks to understand the actions taken at the three tiers and how each level effects the next.
- Using the knowledge gained from the analyses, it is possible to reshape the structure of the three tiers in order to improve the flow of actions, and reactions.
- The UK defence acquisition process faces a number of new challenges, specifically concerning NEC. Our model provides the mechanism for finding solutions to the transactional problems.
- This study is the first attempt to understand the challenges facing defence acquisition using the three-tier model. Further case studies will be forthcoming.

# IPT Structure



\* Interviewed

